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## Uzbekistan, Republic of

### Cotton and Products

### Annual

### 2006

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**Report Highlights:**

The cotton sowing has been completed in time throughout Uzbekistan due favorable weather conditions this Spring. Lint production is forecast at 1.17 million metric tons (MMT) in MY 2006/07, although a great deal will depend on weather conditions during vegetation and harvest. Lint exports are forecast at 850,000 MT.

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## Executive Summary

Cotton sowing was completed on time throughout Uzbekistan due to favorable weather conditions this spring. The Uzbek government's target for seed cotton production remains unchanged at 3.6 MMT, and lint cotton production is estimated to reach almost the same levels as last year. Uzbek cotton exports are expected to decrease slightly with China and Russia remaining the traditional markets for Uzbek cotton.

Most observers agree it is becoming increasingly difficult to attain state targets due to poor seed quality, poor farming practices, the absence of production incentives, as well as frequent water shortages. Nonetheless, the Government of Uzbekistan (GOU) is expected to maintain cotton area.

Domestic consumption is expected to remain unchanged in MY 2006/07, although it is forecast to increase slowly each year by 5 percent as most of the newly constructed textile plants reach their full production capacity.

The government of Uzbekistan (GOU) still maintains tight control over all aspects of cotton production including plant area, setting up production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan.

The cotton ginning industry is one area of the country's economy where new investments are needed but have not improved in spite of the government's efforts. The main reason seems to be the government's poor and inadequate policy in guaranteeing the investors' rights.

The spinning and weaving industries continue to invest heavily into new equipment as well as to renovate existing equipment due to improving profitability over the past four years. The domestic demand is getting stronger with a marginal increase over the last year, and the stronger export demand, especially in cotton yarn are responsible for the current market surge. Looking to 2005-06 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than rely on low-value yarn based exports, if it wants to remain competitive in the global market.

Currently, there are more than 340 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2005, foreign investments in textile industry reached about USD 900 million and are projected to reach over USD 960 million in 2006. The main products produced and exported by textile mills are cotton yarn and gray fabrics.

Over 70% of all Uzbek cotton is exported. Beginning in 2005, U.S. and European trading companies began having some difficulties in 2005. At that time, the GOU excluded these companies from participating in export tenders. This year companies are still experiencing some problems in buying cotton. At the beginning of the year, there were reportedly large quantities of cotton remaining unsold. That situation has improved somewhat and according to trade sources, there is currently about 250,000 MT of cotton remaining in terminals.

## Production

Larger than normal snowfall and close to normal winter rains have enhanced surface and ground water supplies for cotton production. Cooler and cloudy weather in the higher elevations, however, has slowed the melting process, thus delaying water for irrigation in some areas. Somewhat cool temperatures and a few rainy days in the beginning of April delayed cotton planting for a few days in some regions of the country. Still, as of April 30, cotton sowing had been completed on 100 % of targeted planted area. The Uzbek government announced that planned area would be 1.391 million hectares including 104,000 hectares under plastic. The state production target for seed cotton remains at 3.6 MMT. Cotton lint production is forecast at 1.17 MMT. Production of Extra-Long Staple cotton is not significant in Uzbekistan.

Independent representatives, currently, do not expect any quality deterioration of the new crop as long as there is no significant precipitation in mid autumn, during the harvest.

**Table 1: Cotton Production, Supply and Demand**

Uzbekistan, Republic of Cotton							
	2004	Revised	2005	Estimate	2006	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		08/2004		08/2005		08/2006	MM/YYYY
Area Planted	1391000	1391000	1391000	1391000	0	1391000	(HECTARES)
Area Harvested	1456000	1391000	1450000	1391000	0	1391000	(HECTARES)
Beginning Stocks	200962	134110	282609	153110	0	223110	(MT)
Production	1132178	1140000	1219269	1200000	0	1170000	(MT)
Imports	0	0	0	0	0	0	(MT)
MY Imp. from U.S.	0	0	0	0	0	0	(MT)
<b>TOTAL SUPPLY</b>	1333140	1248110	1501878	1353110	0	1393110	(MT)
Exports	860020	810000	1012429	880000	0	850000	(MT)
<b>USE Dom. Consumption</b>	190511	285000	174181	250000	0	250000	(MT)
Loss Dom. Consumption	0	0	0	0	0	0	(MT)
<b>TOTAL Dom. Consumption</b>	190511	285000	174181	250000	0	250000	(MT)
Ending Stocks	282609	153110	315268	223110	0	293110	(MT)
<b>TOTAL DISTRIBUTION</b>	1333140	1248110	1501878	1353110	0	1393110	(MT)

Uzbek farmers use a variety of high yielding, early maturing cotton varieties. In 2006, the main sown varieties reportedly are Bukhara-6, Bukhara-8, An-Bayavut-2, Namangan-77 and Akdarya-2 local cotton varieties. Each variety has unique characteristics for maturity, yield, and most importantly, disease-resistant characteristics. They are all sown in different regions depending on soil conditions. Cotton experts reportedly value An-Bayavut-2 and it is sown in 3-4 regions, including such big cotton growing regions as Syrdarya and Djizakh. Except for Bukhara-8, which is relatively new, most varieties were developed 10-15 years ago.

Table 2: FY06/07 Target Cotton Seed Area and Production by Regions

REGION	Area (Ha)	Production (MT)
Karakalpakstan Republic	80,000	141,000
Andijan region	112,600	310,000
Bukhara region	121,000	400,000
Djizakh region	105,500	225,000
Kashkadarya region	169,600	420,000
Navoi region	39,400	120,000
Namangan region	94,000	270,000
Samarkand region	103,400	225,000
Surkhandarya region	125,600	380,000
Syrdarya region	115,300	249,000
Tashkent region	108,000	280,000
Fergana region	120,600	320,000
Khorezm region	96,000	260,000
<b>TOTAL</b>	<b>1,391,000</b>	<b>3,600,000</b>

### Production Policy

As part of its economic reform plans in 2003 the government of Uzbekistan (GOU) adopted the decree according to which all state farms during 2004-2006 were planned to reorganize into private farms. As of today more than half of the existing state farms have been already reorganized into private farms. GOU reportedly plans to finish this process by the end of 2006. In spite of implemented structural reforms in agricultural sector, the GOU still maintains tight control over all aspects of production including plant area, production targets, prices, inputs, procurement and marketing the majority of the cotton in Uzbekistan.

Cotton has traditionally been the primary cash crop in Uzbekistan. It is a significant source of employment and foreign exchange. However, for the past several years, Uzbekistan has been experiencing serious problems in cotton production for a number of reasons, including weather, inadequate production incentives (i.e. prices), inadequate and low-quality inputs and deteriorating infrastructure, especially irrigation. Not to mention, the lack of free market principles.

Uzbekistan is planning to increase area sown using faster-maturing varieties. During the last three years, the government initiated a major program to reform the cotton sector, aimed mainly at improving fiber quality. The reforms are focused on three areas: First, the replacement of inferior cotton varieties, particularly those with a high micronaire, with better varieties. In connection with this, the government established a new State Inspection

Service in 2005, which controls production and utilization of cottonseed; second, the government is still seeking to modernize ginning plants by attracting foreign investment. Presently, more than 80 percent of the nation's ginning equipment dates to the Soviet era and needs to be replaced; third, in December 2002 the government adopted a decree that allows farmers to sell up to 50 percent of their cotton output either domestically or abroad. However, as of today, there is still no concrete mechanism developed to allow this process to begin, and thus the government keeps a monopoly on cotton marketing.

The cotton ginning industry is one area of the country's economy where new investments are needed but have not improved in spite of the government's efforts. The main reason seems to be the government's poor and inadequate policy in guaranteeing the investors' rights.

The GOU does provide some special privileges and preferences for the textile industry:

Until Jan 1, 2009, any company with foreign investments specializing in production of garments and apparel and hosiery products are exempted from all types of taxes and duties, except for VAT. Those companies included in the investment program and re-equipping, are exempt from customs duties on imports of equipment and spare parts. Those companies importing chemicals, dyes, and other materials not produced in Uzbekistan. Finally, those exporting companies, which have fully integrated production from fiber processing to yarn and fabric production, and production of clothes and garments are given an additional 5% discount on imported inputs.

MY 2006/07 average seed cotton procurement price will be reportedly increased to Sums 300,000 per ton (Official rate: Sums 1233=\$1.00), which is about 15 percent higher than the average seed cotton prices (Sums 255,000) paid to farmers last year.

### **Consumption**

The government has often stated that it would like to consume more of Uzbekistan's cotton production domestically, but it has had only limited success. Less than 30% of all cotton is consumed domestically. The State Cotton Ginning Association "Uzkhlopkopromsbyt" is a joint-stock company (51 percent state owned) that procures and gins all state-order cotton. About 90 percent of Uzbekistan's gins are saw gins and the remainder are either roller or combination gins. In addition to Uzkhlopkopromsbyt's 127 gins, the Ministry of Agriculture and Water Resources operates another 18 gins, mainly on their elite seed farms. Effective ginning capacity is estimated to be well below the 6.0 MMT of installed capacity due to equipment problems.

All cotton lint is still sold either to the trading companies of the Ministry of Foreign Economic Relations, Investments and Trade (MFERIT) for export and partially allocated to the Republican Commodity exchange that organizes cotton lint sales for domestic consumers.

The spinning and weaving industries continue to invest heavily into new equipment as well as to renovate existing equipment due to improving profitability over the past four years. The domestic demand is getting stronger with a marginal increase over the last 2 years, and the stronger export demand, especially in cotton yarn are responsible for the current market surge. Looking to 2005-06 the textile industry knows it must aggressively pursue quality improvements and production diversification to include more value-added products, rather than to rely mainly on low-value yarn based exports, if it wants to remain competitive in the global market.

**Table 3: Uzbek Textile production 2003-04 (Calendar years)**

Product type	2003	2004	2005
Cotton yarn (tons)	171800	152400	230,000
Stockinet (tons)	4000	4300	5000
Fabrics (mln.sq.m)	415	300,8	400
Knitted products (mln piece)	21,2	29,6	33,0
Hosiery products (mln pairs)	13,4	17,5	21,0

Source: State Joint-Stock Company "O'zbekyengilsanoat"

Currently, there are more than 40 joint ventures established in the textile industry with partners from Turkey, Germany, South Korea, Japan and Switzerland. As of 2005, foreign investment in textile industry reached USD 900 million and is projected to reach about USD 960 million in 2006. The main products produced and exported by textile mills are cotton yarn and gray fabrics. The industry is expanding production of value-added products such as shirts and other garments for the export market. The GOU adopted a new program (2005-2008) to develop the textile industry. The main goal is to increase the volume of domestic cotton lint processing up to 50 percent through modernization and technical improvement of existing enterprises. The stated objective is for 94 investments projects to be implemented by 2008 and to attract investments worth more than USD 1.2 billion.

## Trade

Uzbekistan's cotton exports increased in MY 2005/06 to 880 TMT after several years of declines. Last year farmers were able to harvest 3.749 MMT of seed cotton, which is 149,000 MT higher than the official state target (3.6 MMT). The preliminary export forecast for MY 06/07 is 850,000 MT, assuming normal weather for the remainder of the growing season. The GOU still controls of both state-order cotton and over-quota free cotton through the trading companies associated with the MFERIT. MFERIT coordinates sales; export prices and shipments of all cotton. Russia remains the traditional buyer, although since last year China became Number one import market for Uzbek cotton exports. In comparison, in MY04/05 Uzbekistan's cotton exports to China equaled to 233,000 MT, and in FY05/06 China's imports from Uzbekistan are forecast at the level of 250,000 MT, which places Uzbekistan in the 2<sup>nd</sup> place after U.S. among cotton exporters in Chinese market.

Most cotton is still sold to international shippers through negotiated sales. In addition, annually about 100,000 tons of cotton is allocated by the state for export through the Republican Commodity Exchange. Over 70% of all Uzbek cotton is exported. Beginning in 2005, U.S. and European trading companies began having some difficulties in 2005. At that time, the GOU excluded these companies from participating in export tenders. This year companies are still experiencing some problems in buying cotton. At the beginning of the year, there were reportedly large quantities of cotton remaining unsold. That situation has improved somewhat and according to trade sources, there is currently about 250,000 MT of cotton remaining in terminals.

Table 4: Export Trade Matrix

Uzbekistan, Republic of Cotton			
Time Period	Aug/July	Units:	Aug/March
Exports for:	2004	MT	2005
U.S.	0	U.S.	0
Others		Others	
Russia	125000	Russia	103000
Korea	46000	Korea	31000
China	233000	China	201000
Germany	31000	Germany	20000
Turkey	24000	Turkey	12000
Poland	22000	Poland	13000
France	18000	France	8000
Pakistan	14000	Pakistan	9000
<b>Total for Others</b>	513000		397000
<b>Others not Listed</b>	297000		313000
<b>Grand Total</b>	810000		710000

### Stocks

There are no official or reliable data on stocks. Stock numbers in this report are calculated as a residual.